Sentry Insurance

B 8280-4-F

A Sentry Study

Shaping a Compromise:

Americans' Attitudes Toward Reducing the Deficit and Simplifying Taxes

Conducted by
Louis Harris and Associates, Inc.
for Sentry Insurance
April, 1985

Study No. 851003

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Project Director:

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FOREWORD FROM SENTRY INSURANCE

Americans and their elected leaders are increasingly troubled by two pressing economic issues: an enormous federal budget deficit, and a federal income tax system most people consider unfair. Sentry Insurance commissioned this study to help give the public a voice in this debate.

Rather than focusing narrowly on a single issue, we asked the Harris organization to conduct a broad national survey encompassing the major proposals for deficit reduction and tax simplification now being considered in Washington. The survey asks Americans how serious a problem they believe the deficit is for the country -- and for their personal economic futures. It asks them to choose among possible spending cuts and tax increases, then asks what more they would do if their first choices didn't reduce the budget significantly. And it explores the trade-offs Americans are willing to make in the interest of tax simplification.

Shaping A Compromise: Americans' Attitudes Toward Reducing the Deficit and Simplifying Taxes is our ninth major opinion research project since 1973. The Sentry Studies are part of our continuing public affairs program in which we provide new and important information on issues of concern to government, business and the public.

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A WORD ABOUT THIS STUDY

This research was conducted by telephone among a representative cross section of 1,253 Americans aged 18 years and over between February 1 and February 12, 1985. A full description of the methodology appears as an appendix to this report.

It should be noted that percentages in the tables may not always add to 100 because of rounding.

Copies of the questionnaire used in this study are available from Louis Harris and Associates, Inc.

EXECUTIVE SUMMARY

While the nation's leaders hedge and posture in Washington, the American people are quickly making up their minds about how they want to see the deficit cut and how they want the tax system simplified and made more fair. This study finds the public assigning far greater urgency to both tasks -- and converging far more rapidly on specific policies to achieve their goals -- than the tenor of today's debate would suggest.

Always distasteful, the deficit is perceived in this analysis not only as a major problem for the country but also as a direct threat to the economic well-being of millions of Americans personally. The public associates a host of serious economic ills with continuing high deficits and worries most about the deficit forcing up interest rates. By a staggering 84-11% Americans are demanding that the deficit be cut significantly by 1988.

How to do it? In the abstract, spending cuts are always more attractive than raising taxes. But this study shows that Americans bring both a sense of realism and of balance to the tough decisions ahead. Indeed, solid majorities would vote as members of Congress to:

-- Limit deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year;

-- Disallow the cost-of-living adjustment (COLA) for federal and military retirees for one year;

-- Reduce the growth of defense spending;

-- Freeze Medicare payments to doctors and hospitals for one year;

-- Limit deductions of charitable contributions to those exceeding a certain percentage of income; and

-- Cut the pay of federal employees by 5%.

To be sure, several sacred cows continue to graze in the budget pasture even as the urgency of cutting the deficit approaches fever pitch. Federal support for farmers and small business achieves this status; Americans reject disallowing the Social Security COLA for one year, and they reject taxes on such employee benefits as group life and health insurance. But on a number of important and contentious items, Americans are opening more doors for action than ever before.

Similarly for tax simplification, the public is fed up with today's tax system and is prepared to make major changes. By nearly 2 to 1 the American people endorse the broad outlines of the Treasury Department tax simplification proposal advanced last November -- used in this study as a proxy for a family of "flat" tax proposals. And they endorse these types of proposals even more strongly after an elaborate description of the tax preferences they might have to give up and new taxes they might have to pay. Of ten provisions tested, only new taxes on employee benefits precipitate substantial (but still minority) opposition to the plan overall. By 75-18%, Americans say the tax simplification plan will be no less fair than the current system. Support for its enactment includes majorities in all regions of the country, majorities of all age groups, pluralities or majorities of those at all income levels, and majorities of Republicans, Democrats, and independents.

With this study Americans are sending their leaders an important and timely message: get moving on both fronts, they say. This research provides every indication that Americans are not only willing to confront and accept

painful budget decisions to reduce the deficit but are also demanding leadership to do so. And, concurrently -- even if at a lower level of priority -- they see a major opportunity to put the nation's income tax system on a simpler and more fair footing, even if they have to give up some cherished tax preferences to do so.

How deficit reduction and tax simplification will fare in the legislative process ahead very much remains to be seen. But these findings leave no doubt that Americans not only are impatient for action but also have high hopes that the nation's leadership will seize these rare opportunities.

CHAPTER 1: THE PERCEIVED SERIOUSNESS OF THE FEDERAL BUDGET DEFICIT

Concern about the federal budget deficit has reached fever pitch. More than 6 Americans in 10 (63%) consider the 1984 level of the deficit very serious for the country, while an additional 27% regard deficits of this magnitude as somewhat serious. Older and better-educated Americans demonstrate the greatest concern (Table 1).

"Poppycock," the skeptics have said. The deficit is a mere abstraction for most people who deplore it for the same reason they deplore any excessive debt. It's not a voting issue, they say.

Yet this study shows that nearly half (49%) of all adult Americans consider the deficit very serious for them personally (Table 1), while an additional 35% consider it somewhat serious. Scarcely 1 American in 10 (12%) personally considers the deficit not serious at all.

Economists can debate the impact of high budget deficits endlessly, but the American people aren't waiting for their verdict. By overwhelming majorities, Americans associated the deficit with a host of economic ills (Table 2):

-- By 74-20%, the public considers it likely that high federal budget deficits will increase interest rates in the next twelve months.

-- By 74-22%, Americans expect the deficit to increase inflation in the next twelve months.

-- By 69-25%, the public fears a slowing of the rate of economic growth on account of the deficit.

-- By 68-27%, Americans are looking for an increase in unemployment in the next year because of deficits.

-- By 62-33%, Americans think the deficit is likely to cause a recession in the economy in the year ahead.

Observation:

The spectre of rising interest rates cuts a broad swath in these concerns associated with high federal budget deficits, shared by upper and lower income Americans alike as well as by those better educated and less educated. Other fears are more targeted. Lower income Americans -- those most vulnerable to inflation, unemployment, and recession -- are significantly more worried than their upper income counterparts that high deficits will bring these problems back for a return engagement. Democrats as a group are consistently more likely to associate various economic ills with the deficits than Republicans, but majorities of Republicans consider each of these economic problems at least somewhat likely in the next twelve months because of the deficit.

It comes as no surprise, then, that Americans overwhelmingly support President Reagan's stated objective of cutting the deficit significantly by 1988 (Table 3). More than 6 Americans in 10 (61%) consider this objective very important, while an additional 23% regard it as somewhat important. Only 11% say cutting the deficit significantly isn't important. Support for cutting the deficit is most intense among better educated and high-income Americans, and among Republicans and independents. But majorities of every demographic group in society consider cutting the deficit significantly to be a very important objective.

Observation:

That people dislike public deficits is old news. What these findings add to the debate is an understanding of the intensity, character, and political power of the concern. Far from being seen only as a distasteful abstraction, the deficit emerges in this analysis as a real threat to the economic well-being of practically all Americans. Across the board, they fear the deficit will force interest rates up -- a voting issue if ever there was one. More selectively, vulnerable groups in society see deficits threatening their own prosperity. The nuances of public finance may still be abstract for most Americans, but increasingly people are linking the level of federal deficits to their own well-being -- and concluding that the deficit has to be cut.

Q.1a,1b

Table 1

PERCEIVED SERIOUSNESS OF THE SIZE OF THE FEDERAL BUDGET DEFICIT

Q.: The federal budget deficit was almost 200 billion dollars in fiscal year 1984. Do you feel that deficits of this size are a very serious problem, somewhat serious, or not serious at all <u>for the country</u>?

Q.: And how about <u>for you personally</u> -- would you say federal budget deficits of this size are a very serious problem, somewhat serious, or not serious at all?

	For the Country						For You Personally					
	Total	18-49 Years	50 and Over	High School Graduate or Less	Some College	College Graduate or More	Total	18-49 Years	50 and Over	High School Graduate or Less	Some College	College Graduate or More
Base	1253	837	414	632	299	322	1253	837	414	632	299	322
	%	%	%	%	%	%	%	%	%	%	%	%
Very serious	63	59	69	60	68	69	49	46	54	49	50	48
Somewhat serious	27	31	21	27	26	27	35	39	27	33	38	37
Not serious at all	4	4	3	5	3	2	11	12	10	11	10	12
Not sure	6	6	7	8	3	2	5	4	8	7	3	2

Q.2

Table 2

PERCEIVED LIKELIHOOD OF THE FEDERAL BUDGET DEFICIT CAUSING VARIOUS ECONOMIC PROBLEMS IN THE NEXT TWELVE MONTHS

Q.: In the next twelve months, how likely do you think it is that high federal budget deficits will (READ EACH ITEM) -- very likely, somewhat likely, not very likely, or not likely at all?

		Income		Party Affiliation		
	Total	$25,000 or Less	$25,001 or More	Republican	Democrat	Independent
Base	1253	635	566	424	447	329
	%	%	%	%	%	%
Increase interest rates						
Very likely	41	41	43	35	46	42
Somewhat likely	33	35	30	36	30	35
Not very likely	13	11	16	18	9	13
Not likely at all	7	6	7	6	7	7
Not sure	6	7	4	5	8	3
Increase inflation						
Very likely	38	42	31	32	45	35
Somewhat likely	36	33	42	38	35	34
Not very likely	14	13	17	18	9	19
Not likely at all	8	8	7	8	6	9
Not sure	4	4	2	3	5	3
Increase unemployment						
Very likely	33	38	26	28	40	31
Somewhat likely	35	33	39	33	35	38
Not very likely	16	14	19	22	10	19
Not likely at all	11	11	12	13	10	8
Not sure	5	5	4	4	5	4
Slow the rate of economic growth						
Very likely	30	31	29	28	33	28
Somewhat likely	39	38	41	38	42	36
Not very likely	16	17	17	20	12	19
Not likely at all	9	7	10	10	6	11
Not sure	6	7	3	4	7	6
Cause a recession in the economy						
Very likely	26	31	19	20	31	25
Somewhat likely	36	34	38	33	40	33
Not very likely	20	17	26	27	14	23
Not likely at all	13	12	14	15	10	13
Not sure	5	7	3	5	4	7

Q.6

Table 3

PERCEIVED IMPORTANCE OF CUTTING THE FEDERAL DEFICIT BY 1988

Q.: President Reagan has said that he wants to cut the annual federal budget deficit by more than half by 1988. In general, do you think this is a very important objective, somewhat important, not very important, or not an important objective at all?

		Education			Income						Party Affiliation		
	Total	High School Graduate or Less	Some College	College Graduate or More	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over	Republican	Democrat	Independent
Base	1253	632	299	322	127	211	297	261	182	123	424	447	329
	%	%	%	%	%	%	%	%	%	%	%	%	%
Very important	61	60	61	68	53	56	60	70	67	64	63	58	64
Somewhat important	23	22	29	24	17	26	26	19	26	29	27	21	23
Not very important	7	7	5	5	10	7	8	5	6	3	5	9	6
Not important at all	4	5	3	2	9	4	4	3	-	-	1	7	3
Not sure	5	6	3	1	12	7	2	3	1	3	4	5	3

CHAPTER 2: REDUCING THE DEFICIT: HOW THE PUBLIC REACTS TO HIGHER TAXES AND LOWER SPENDING

Americans are not ideologues when it comes to reducing the federal deficit. By 82-9% they prefer decreasing spending to raising taxes as the way to do the job (Q.3). But when confronted with the reality of the choices, only 29% say the deficit can be reduced by spending cuts alone (Q.15). Fully 60% think it will be necessary to both cut spending and raise taxes. Only 3% opt for solving the problem by only raising taxes.

Tax Increases

So intense has concern about the deficit become that Americans today are willing to consider a surprising range of tax increases (Table 4). Significant pluralities, in fact:

-- Favor limiting deductions of charitable contributions to those exceeding a certain percentage of income (50-40%), including Americans who itemize on their federal income tax returns;

-- Favor eliminating (by 49-40%) deductions of interest paid on second or vacation homes, including upper income Americans and those who itemize; and

-- Favor limiting deductions of interest paid on credit card charges, car loans and other personal debt to $5,000 a year (by 48-40%).

Yet Americans' appetite for tax increases goes only so far. They favor only narrowly (by 45-42%) a significant reduction in the tax breaks businesses get for depreciation on new plants and equipment, or taxing capital gains as ordinary income (41-38%). And they oppose outright:

-- Eliminating the investment tax credit for business (opposed by 47-37%);

-- Eliminating deductions of local property taxes (56-31%);

-- Eliminating deductions of state and local income taxes (51%-30%);

-- Taxing employees for group life insurance premiums that are paid by employers (62-30%); and

-- Taxing employees for group health insurance premiums that are paid by employers and that exceed a certain amount (61-28%).

Observation:

These findings point up both opportunities and challenges for policymakers. The opportunities lie in seizing public support for some of the easier tax increases and transforming this support into policy. The challenges lie clearly in the enormous political risks of raising taxes (or eliminating preferences) on more popular items in a vacuum.

Americans who say they are willing to see their own taxes go up to cut the federal deficit (73%, Q.16), for example, are no more willing than Americans as a whole to favor the least popular measures. Americans who itemize their deductions are consistently more opposed to the least popular tax increases than the public at large. And while the entire nation opposes taxing such employee benefits as group life and health insurance by better than two-to-one margins, employed Americans (50% of the total) oppose these measures even more strongly.

The public may be ready to cut the deficit, but not through tax increases -- either on individuals or businesses -- alone, although they will accept some tax plans if need be.

Q.4

Table 4

POSITIONS ON VARIOUS TAX CHANGES TO CUT THE FEDERAL DEFICIT

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

	Total	Income $25,000 or Less	Income $25,001 or More	Itemizes Tax Deductions	Full-Time Employee	Willing To Pay Higher Taxes To Cut Deficit
Base	1253	635	566	759	667	939
	%	%	%	%	%	%
Limits deductions of charitable contributions to those exceeding a certain percentage of income						
Favor	50	50	52	51	55	52
Oppose	40	38	42	44	41	39
Not sure	10	12	5	6	5	9
Eliminates deductions of interest paid on second or vacation homes from federal taxable income						
Favor	49	48	52	50	52	53
Oppose	40	41	39	42	41	38
Not sure	11	12	9	8	6	9
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year						
Favor	48	47	51	49	51	52
Oppose	40	40	42	42	41	38
Not sure	12	13	8	9	7	9
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment						
Favor	45	47	42	45	44	47
Oppose	42	39	48	45	47	40
Not sure	13	14	10	10	9	12

(Continued)

Q.4

Table 4 (Continued)

POSITIONS ON VARIOUS TAX CHANGES TO CUT THE FEDERAL DEFICIT

Base	Total	Income		Itemizes Tax Deductions	Full-Time Employee	Willing To Pay Higher Taxes To Cut Deficit
		$25,000 or Less	$25,001 or More			
	1253	635	566	759	667	939
	%	%	%	%	%	%
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate						
Favor	41	42	42	43	46	45
Oppose	38	35	44	41	40	36
Not sure	20	23	15	16	15	19
Eliminates the investment tax credit businesses now get for things like new plants and equipment						
Favor	37	40	33	36	36	39
Oppose	47	41	57	52	56	47
Not sure	16	19	10	12	8	15
Eliminates deductions of local property taxes from federal taxable income						
Favor	31	33	28	31	28	31
Oppose	56	52	62	60	64	58
Not sure	13	14	10	9	8	11
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income						
Favor	30	31	28	29	29	32
Oppose	51	48	58	55	57	51
Not sure	18	21	13	17	14	17
Taxes employees for group life insurance premiums that are paid by employers						
Favor	30	30	28	29	25	30
Oppose	62	60	65	64	69	62
Not sure	9	10	7	7	6	8
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount						
Favor	28	29	26	26	25	30
Oppose	61	59	66	65	68	61
Not sure	11	12	8	9	7	10

Spending Cuts

Both generally and in terms of specifics, Americans are more agreeable to cutting the spending of the federal government than to raising taxes. Indeed, the public today is demonstrating even more flexibility on spending than it is on taxes in view of the deficit crisis. And programs considered sacred cows in recent memory are increasingly open to scrutiny:

-- By 60-33%, the public now favors disallowing the cost-of-living adjustment for federal and military retirees for one year, a position taken even more strongly by retirement-age Americans themselves.

-- By 58-33%, Americans favor reducing the growth of real defense spending to 1% or 2% instead of the roughly 6% proposed by President Reagan.

-- By 55-36%, Americans support continuing the freeze on Medicare payments to doctors, a position taken more strongly by Americans over age 50 and most strongly by those 65 or over (67-24%).

-- By a startling 53-41%, the public favors disallowing the cost-of-living adjustment on Social Security for one year. Americans 65 and over, however, favor this idea more narrowly, by 48-42%.

-- By 53-42%, Americans favor disallowing the cost-of-living adjustment for food stamp recipients for one year.

On two proposed spending measures, the public divides almost evenly:

-- By 48-47%, Americans narrowly favor cutting the pay of federal employees by 5%. Older Americans, middle-income Americans, and Republicans and independents are among the groups favoring this cut; younger people, higher income households, and Democrats are more likely to oppose it.

-- By 47-45%, the public narrowly opposes eliminating federal spending for Amtrak and other rail systems. Americans living in the East and those in the suburbs are among those most strongly opposed to this proposal (54-42% and 51-42%, respectively).

On several important spending measures, opposition to cuts overwhelms support:

-- By 51-44%, Americans oppose eliminating federal spending to help small businesses.

-- By 50-41%, the public opposes reducing price support payment to farmers.

-- By 55-38%, Americans oppose eliminating federal revenue sharing with cities.

-- By 61-35%, Americans oppose restricting college tuition grants from government for students from middle-income families -- a proposal opposed even more strongly by Americans under the age of 50 and by middle-income households.

-- By 62-32%, the public opposes reducing Medicare payments to hospitals.

Observation:

These findings show that Americans are opening more doors to the nation's leaders to reduce the budget deficit than many other studies -- including those by the Harris firm -- have shown in the recent past. Certainly nothing approaching a meat-cleaver mentality is evident in these data: Americans seem most attracted to notions such as temporarily disallowing COLA's and freezing certain types of spending while shying away from such extremes as eliminating whole programs. Yet the willingness to compromise is clearly in evidence -- an important first step in breaking the seemingly intractable barriers to national agreement on how best to cut the deficit.

Q.5

Table 5

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT
THE SIZE OF THE FEDERAL DEFICIT

Q.: Now let's look at the spending side. To cut the size of the federal budget deficit, would you favor or oppose (READ EACH ITEM)?

		Age			
	Total	18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Disallowing the cost-of-living adjustment for federal and military retirees for one year, but increasing it by how much inflation goes up after that					
Favor	60	59	60	60	64
Oppose	33	34	34	33	25
Not sure	7	6	6	7	11
Reducing the growth of defense spending to 1% or 2% instead of the 6% or so that the President is likely to propose					
Favor	58	60	58	57	57
Oppose	33	34	34	32	30
Not sure	9	6	8	11	13
Continuing the freeze on Medicare payments to doctors					
Favor	55	45	56	59	67
Oppose	36	47	36	32	24
Not sure	9	8	8	9	9
Disallowing the cost-of-living adjustment on Social Security for one year, but increasing it by how much inflation goes up after that					
Favor	53	55	54	51	48
Oppose	41	39	41	42	42
Not sure	7	6	5	7	10

(Continued)

Q.5

Table 5 (Continued)

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT THE SIZE OF THE FEDERAL DEFICIT

	Total	Age 18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Disallowing the cost-of-living adjustment for food stamp recipients for one year, but increasing it by how much inflation goes up after that					
Favor	53	58	53	51	47
Oppose	42	38	43	44	42
Not sure	5	4	4	4	11
Cutting the pay of federal employees by 5%					
Favor	48	46	45	51	56
Oppose	47	49	49	46	37
Not sure	5	5	6	3	7
Eliminating federal spending for Amtrak and other rail systems					
Favor	45	45	43	49	46
Oppose	47	48	49	45	41
Not sure	8	7	8	6	12
Eliminating federal spending to help small businesses					
Favor	44	46	35	50	51
Oppose	51	52	61	45	37
Not sure	5	2	4	5	12
Reducing price support payment to farmers					
Favor	41	43	39	41	43
Oppose	50	51	52	51	44
Not sure	9	6	10	8	14
Eliminating revenue sharing, the program under which the federal government gives cities money to use pretty much as the cities please					
Favor	38	38	37	39	36
Oppose	55	57	56	53	51
Not sure	7	4	7	8	13

(Continued)

Q.5

Table 5 (Continued)

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT
THE SIZE OF THE FEDERAL DEFICIT

	Total	Age 18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Restricting college tuition grants from government for students from middle income families					
Favor	35	26	33	47	41
Oppose	61	72	64	46	51
Not sure	4	2	3	7	7
Reducing Medicare payments to hospitals					
Favor	32	32	29	35	35
Oppose	62	63	65	59	57
Not sure	6	4	6	6	7

Trying a Little of Both

Studies that measure only the public's willingness to raise taxes or to cut spending provide important insights into Americans' priorities, but often end up between a rock and a hard place. Raise taxes, the voters say, but not my taxes; cut spending, they continue, but not spending that benefits me. What's a member of Congress to do?

To surmount the limitations of conventional analysis, this study actually invited respondents to put themselves in the place of their elected representatives and to consider a combined smorgasbord of tax increases and spending cuts. Respondents who said they considered cutting the deficit significantly by 1988 important were asked how they would vote in Congress on each of a dozen different measures. Respondents opposing particular measures in the first round of questioning were then asked how they would vote if all the measures they favored didn't meet the deficit reduction goal. The exercise was designed to replicate, insofar as possible, the choices now confronting actual members of Congress to see how their constituents would cast their ballots (Table 6).

The exercise reveals solid majority support for several important and contentious issues now before the Congress:

-- Fully 60% of all Americans would vote in favor of limiting deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year; 18% would vote against the measure; and 15% don't consider cutting the deficit significantly by 1988 important or aren't sure, and thus weren't asked the question.

-- Nearly 6 Americans in 10 (59%) would vote as members of Congress to disallow the cost-of-living adjustment for federal and military retirees for one year.

-- An identical percentage (59%) would vote to reduce the growth of defense spending.

-- Fifty-eight percent of all Americans would vote to freeze Medicare payments to doctors and hospitals for one year.

-- Fifty-seven percent of all Americans would vote to limit deductions of charitable contributions to those exceeding a certain percentage of income.

-- A solid 55% would vote as members of Congress to cut the pay of federal employees by 5%.

Observation:

Taken together, these measures could put a major dent in the budget deficits now projected. Under this type of pressure, Americans are telling their representatives to bite the bullet on interest and charitable contributions deductions and on spending for federal and military retirees, defense, Medicare, and the salaries of federal employees. Few members of Congress would look forward to casting any of these votes. But their constituents are telling them that reducing the deficit is worth it.

Several measures, however, are without clear majorities in support of Congressional action:

-- By 49-27% the public would reduce business tax incentives for new investment in plants and equipment, a surprising reminder that the public isn't clamoring to reduce the deficit solely by socking business.

-- Forty-five percent of all Americans would vote as members of Congress to eliminate deductions of state and local income taxes and sales taxes, while 30% would vote against such a measure. If those Americans who consider cutting the deficit unimportant or who aren't sure (15% of all adults) weighed in with those opposed to the measure, the result would be a 45-45% wash.

-- Forty-four percent of the American people would vote in favor of reducing federal support for farmers and small businesses, but those who consider cutting the deficit unimportant combined with those who oppose the move could constitute a majority in opposition.

-- An identical proportion favors disallowing the cost-of-living adjustment on Social Security for one year, but here too, a coalition of those indifferent to cutting the deficit with those opposed to the measure could constitute a majority in opposition.

-- Least attractive as measures to reduce the deficit are proposals to tax such employee benefits as group life and health insurance, favored by 39% and 41%, respectively.

Observation:

The public's huge appetite for deficit reduction notwithstanding, members of Congress run substantial political risks in supporting several of the proposed measures tested. Farmers and small businesses appear to have the public's support. Disallowing the Social Security COLA would probably invite strong public disapproval. And taxing employer-paid employee benefits could evoke a storm of opposition ranging up to 54-39% for group life insurance and 52-41% for group health insurance.

Q.7a,7b

Table 6

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

Base: Those who consider cutting the deficit by 1988 very/somewhat important

Q.: If you were a member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

Base: Would vote against a specific proposal in Q.7a

Q.: If all the proposals you would vote in favor of to reduce the budget deficit didn't add up to enough to cut the deficit by more than half, would you then tend to vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
		Q.7b		
	Q.7a Initial Position	Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Limit deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year				
Would vote in favor	57	38	71	60
Would vote against	37	58	22	18
Not sure	6	4	7	6
Disallow the cost-of-living adjustment for federal and military retirees for one year				
Would vote in favor	56	35	70	59
Would vote against	40	62	25	21
Not sure	4	2	5	4
Reduce the growth of defense spending				
Would vote in favor	58	31	69	59
Would vote against	38	67	25	21
Not sure	5	2	5	5

(Continued)

Q.7a,7b

Table 6 (Continued)

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
	Q.7a Initial Position	Q.7b Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Freeze Medicare payments to doctors and hospitals for one year				
Would vote in favor	57	30	68	58
Would vote against	38	68	27	22
Not sure	5	2	6	5
Limit deductions of charitable contributions to those exceeding a certain percentage of income				
Would vote in favor	53	35	67	57
Would vote against	40	60	24	21
Not sure	7	6	9	7
Cut the pay of federal employees by 5%				
Would vote in favor	54	27	65	55
Would vote against	42	71	30	25
Not sure	4	2	5	4
Reduce business tax incentives for new investment in plants and equipment				
Would vote in favor	41	34	58	49
Would vote against	50	63	32	27
Not sure	8	3	10	8
Eliminate deductions of state and local income taxes and sales taxes				
Would vote in favor	36	31	53	45
Would vote against	57	61	35	30
Not sure	7	7	12	10

(Continued)

Q.7a,7b

Table 6 (Continued)

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
		Q.7b		
	Q.7a Initial Position	Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Reduce federal support for farmers and small businesses				
Would vote in favor	38	25	52	44
Would vote against	56	72	41	35
Not sure	6	3	7	6
Disallow the cost-of-living adjustment on Social Security for one year				
Would vote in favor	39	22	51	44
Would vote against	57	76	44	37
Not sure	4	1	5	4
Tax employees for group health insurance premiums that are paid by employers and that exceed a certain amount				
Would vote in favor	33	25	48	41
Would vote against	62	70	43	37
Not sure	6	5	8	7
Tax employees for group life insurance premiums that are paid by employers				
Would vote in favor	29	26	46	39
Would vote against	65	70	46	39
Not sure	6	3	8	6

The Dynamics of Decisionmaking

Testing various proposals in different contexts offers several real insights into how Americans view different policy options and how their positions shift (or don't shift) depending on the context and objective in which the proposal is considered (Table 7).

Of the tax increases tested in this study, for example, public support is significantly higher when the measure is tested as part of an overall tax increase and spending reduction package than when the measure is tested only as part of a tax increase plan.

Spending reductions, in contrast, generally show no such differences in support -- drawing about the same levels of support and opposition as part of a package as they do within the context of spending cuts above. Two noteworthy exceptions are Social Security and pay for federal employees:

-- Americans favor disallowing the Social Security COLA (by 53-41%) when they consider it only in the context of other distasteful spending cuts. But given the more realistic opportunity to consider it along with the possibility of raising certain taxes, the appeal of disallowing the COLA slips to 44%.

-- The public waffles on cutting the pay of federal employees when considering only spending cuts with 48% in favor and 47% opposed. But faced with the possibility of other spending cuts and tax increases, sympathy for federal employees evaporates quickly -- Americans end up squarely on the side of cutting federal employees' pay.

Observation:

The fact that public support for tax increases grows under pressure to reduce the deficit in this analysis, while support for spending cuts does not, reflects to a certain degree the spending side focus of the recent public debate. Indeed, public attitudes toward spending cuts may

be more nearly crystallized than attitudes toward tax increases. This study shows not only a surprising public willingness to consider tax hikes, but suggests as well that Americans will increasingly focus on the revenue side as the debate progresses.

Q.4,5,7a,7b

Table 7

THE DYNAMICS OF DECISIONMAKING

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

Q.: Now let's look at the spending side. To cut the size of the federal budget deficit, would you favor or oppose (READ EACH ITEM)?

Q.: If you were a member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

Base: Would vote against a specific measure in Q.7a

Q.: If all the proposals you would vote in favor of to reduce the budget deficit didn't add up to enough to cut the deficit by more than half, would you then tend to vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

	Proportion of All Americans Favoring a Specific Measure:	
	When Tested Against Only Other Tax or Spending Measures	When Tested as Part of a Combined Tax and Spending Package
Base: 1253	%	%
Tax Measures		
Limits deductions of charitable contributions to those exceeding a certain percentage of income	50	57
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year	48	60
Reduces business tax incentives for new investment in plants and equipment	45	49
Eliminates deductions of state and local income taxes and sales taxes	30	45

(Continued)

Q.4,5,7a,7b

Table 7 (Continued)

THE DYNAMICS OF DECISIONMAKING

Base: 1253	Proportion of All Americans Favoring a Specific Measure: When Tested Against Only Other Tax or Spending Measures %	When Tested as Part of a Combined Tax and Spending Package %
Taxes employees for group life insurance premiums that are paid by employers	30	39
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount	28	41
Spending Measures		
Disallowing the cost-of-living adjustment for federal and military retirees for one year	60	59
Reducing the growth of defense spending	58	59
Disallowing the cost-of-living adjustment on Social Security for one year	53	44
Cutting the pay of federal employees by 5%	48	55
Reducing federal support for farmers and small businesses	41; 44	44

Note: Question wording reported in this table refers to that of Q.7a and Q.7b, which varies slightly from the wording in Q.4 and Q.5.

CHAPTER 3: SIMPLIFYING TAXES: SPECIAL INTERESTS VERSUS THE PEOPLE

Hand-wringing pundits in Washington are fond of pointing to the obstacles to major tax reform in the forseeable future. There are too many oxen being gored at once, they say, too many people angry, too many opportunities for otherwise unlikely coalitions to crush any initiative. Not a chance, they conclude.

Missing in these analyses is some understanding of how the American people feel about their tax system: they're fed-up, consider it unfair (by 65-29%, Q.8), and they're ready to change it in major ways. Using the Treasury Department's November 1984 proposal for tax simplification as a point of departure, this study finds deep and consistent public support for a major overhaul of the system premised on lowering marginal rates by broadening the tax base.

Table 8 provides some idea of the depth of public support. Americans favor the broad outlines of the Treasury proposal by nearly 2 to 1 (59-32%) and consider fair (by 57-31%) the original plan's effect of lowering (on average) individuals' taxes while increasing those on business but being revenue-neutral overall. Even after a full description of many of the current tax breaks that would be eliminated under these proposals, Americans favor the plan by <u>better</u> than 2 to 1 (61-29%).

Q.9,10,12a

Table 8

POSITION ON THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS
BEFORE AND AFTER A FULL DESCRIPTION

Q.: The Reagan Administration is working on a plan to simplify federal taxes by reducing the number of tax brackets from fourteen to three and by raising the personal exemption. The plan calls for a basic tax rate of 15% or 25% for most people with a maximum tax of 35% for those in the highest income brackets. Deductions would still be allowed for home mortgage payments and a few other items. But the plan eliminates most other deductions in order to reduce tax rates overall. In general, do you favor or oppose this plan for a simplified federal income tax?

Q.: The Administration's plan is designed to raise the same amount of revenue as the present tax law. It reduces, on average, both tax rates and total tax bills for individuals, but increases taxes on businesses. In general, do you think this arrangement is fair, or unfair?

Q.: The tax simplification plan that the Reagan Administration is working on calls for elimination or reduction of each of the tax breaks I've just asked you about, as well as lower rates, on average, for individuals and a higher personal exemption. All things considered, do you favor or oppose this plan for a simplified federal income tax?

	All Americans		
	Before Full Description		After Full Description
	Q.9	Q.10	Q.12a
Base	1253	1253	1253
	%	%	%
Favor/fair	59	57	61
Oppose/unfair	32	31	29
Not sure	9	12	10

Giving Up Deductions Is a Small Price To Pay

Americans are surprisingly ambivalent about a number of tax preferences often regarded as sacrosanct; majorities say they'd be in about the same financial shape as they are now (instead of better or worse off) if each of eight existing preferences was eliminated (Table 9). The same is true even of Americans who itemize deductions on their federal returns with the exception of eliminating the deduction for local property taxes. Even in this case, however, a plurality of those who itemize say they would end up in about the same financial shape.

Understanding this, it comes as no surprise to find widespread public support for a tax simplification plan:

-- By 66-27%, Americans find the simplification plan acceptable if it limits deductions of charitable contributions to those exceeding a certain percentage of income. By 82-15%, they say they would be better off or in about the same shape financially if the plan eliminates this deduction.

-- By 65-26%, Americans consider the plan acceptable if it eliminates deductions of interest on second or vacation homes; they'd consider themselves better off or in the same shape by 83-11%.

-- By 65-27%, the public would go along with the plan if it limits deductions of interest paid on personal debt to $5,000 a year; by 79-17% they think they'd be better off or in about the same shape.

-- By 64-25%, the public will accept a tax simplification plan that taxes capital gains as ordinary income; even Americans who own stocks, bonds, or mutual funds would accept a plan with this provision (by 59-35%) as would the nation's highest income households (57-40%).

-- By 63-30%, Americans will go along with the simplification plan if it reduces significantly the tax breaks businesses get for depreciation or if it eliminates the investment tax credit. Nearly 8 Americans in 10 say they'd be better off or in about the same shape financially under the plan with either provision.

-- Majorities also find the plan acceptable if it eliminates deductions of state and local income taxes, sales taxes, and property taxes, although nearly 3 Americans in 10 think they would be worse off if the plan includes these provisions. Those who itemize are significantly more likely to think they'd be worse off financially.

-- New taxes on employee benefits are treated least generously. While majorities would accept a tax simplification plan including these provisions, fully 40% of all Americans would find a plan with these provisions unacceptable -- the highest opposition noted for any provision. Among the nation's full-time employees, opposition rises to 47% for taxing employees for group health insurance premiums that are paid by employers and that exceed a certain amount, and to 44% for taxing employees for group life insurance premiums that are paid by employers.

Observation:

So compelling is the public's desire for major tax reform that most preferences -- certainly the preferences that are slated for elimination in the Treasury proposal -- are seen as a small price to pay to simplify and make more fair the nation's income tax, the howls of special interest groups notwithstanding. But new taxes may be a tougher nut to crack, even as part of a package with solid public support. Substantial opposition both among the public, as a whole, and full-time employees, in particular, to new taxes on employee benefits is the only important cloud on the horizon for tax simplification as far as the American public is concerned.

Q.11a,11b

Table 9

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

Q.: How do you think you would come out financially under this simplified tax plan if the plan also (READ EACH ITEM) -- do you think you would be better off overall, worse off, or in about the same shape overall?

Q.: And how acceptable to you would this overall plan to simplify the federal income tax be if it includes this provision -- very acceptable, somewhat acceptable, somewhat unacceptable, or very unacceptable?

	Personal Financial Impact			Position		
	Total Public	Item-ize	Employ-ees	Total Public	Item-ize	Employ-ees
Base	1253	759	667	1253	759	667
	%	%	%	%	%	%
Eliminates deductions of interest paid on second or vacation homes from federal taxable income						
Better off or same shape/ acceptable	83	84	87	65	66	67
Worse off/unacceptable	11	13	11	26	29	28
Not sure	5	3	2	8	5	4
Limits deductions of charitable contributions to those exceeding a certain percentage of income						
Better off or same shape/ acceptable	82	81	84	66	67	71
Worse off/unacceptable	15	17	15	27	28	25
Not sure	3	2	1	7	4	4
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment						
Better off or same shape/ acceptable	79	77	78	63	63	62
Worse off/unacceptable	14	17	18	30	32	33
Not sure	6	6	4	8	5	5

(Continued)

Q.11a,11b

Table 9 (Continued)

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

	Personal Financial Impact			Position		
	Total Public	Item-ize	Employ-ees	Total Public	Item-ize	Employ-ees
Base	1253	759	667	1253	759	667
	%	%	%	%	%	%
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year						
Better off or same shape/ acceptable	79	78	79	65	65	69
Worse off/unacceptable	17	20	18	27	30	28
Not sure	4	2	3	7	5	4
Eliminates the investment tax credit businesses now get for things like new plants and equipment						
Better off or same shape/ acceptable	78	77	75	63	65	62
Worse off/unacceptable	17	20	22	30	31	34
Not sure	5	4	3	7	4	5
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate						
Better off or same shape/ Acceptable	77	76	79	64	64	66
Worse off/unacceptable	16	19	17	25	29	27
Not sure	7	5	4	10	7	6
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income						
Better off or same shape/ acceptable	66	62	61	58	57	57
Worse off/unacceptable	29	35	37	34	37	39
Not sure	6	3	3	9	6	5

(Continued)

Q.11a,11b

Table 9 (Continued)

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

	Personal Financial Impact			Position		
	Total Public	Item-ize	Employ-ees	Total Public	Item-ize	Employ-ees
Base	1253	759	667	1253	759	667
	%	%	%	%	%	%
Eliminates deductions of local property taxes from federal taxable income						
Better off or same shape/ acceptable	65	56	63	55	51	54
Worse off/unacceptable	30	41	35	36	44	41
Not sure	4	4	3	8	5	5
Taxes employees for group life insurance premiums that are paid by employers						
Better off or same shape/ acceptable	63	62	59	53	53	52
Worse off/unacceptable	32	35	40	40	42	44
Not sure	5	3	1	7	5	3
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount						
Better off or same shape/ acceptable	62	57	54	52	51	49
Worse off/unacceptable	33	39	43	40	44	47
Not sure	5	4	2	8	5	4

Promoting Fairness

Significantly, 3 Americans in 10 think the Treasury's tax plan will be more fair than the current income tax system, and 45% expect it to be about as fair. Viewed differently, Americans expect the Treasury plan to be no less fair than the current system by 75-18% -- not an outstanding performance, but probably no worse than practically any alternative (Table 10). Better educated and higher income Americans and Republicans are significantly more likely than all Americans to think the Treasury's tax simplification plan will be more fair; Democrats are the political group most suspicious that it will be less fair.

When all is said and done, Americans still support the principles of a "flat" tax plan by an overwhelming 61-29% (Table 11):

-- Majority support encompasses all regions of the country, but is markedly cooler in the East.

-- Support rises with income to the $50,000-a-year level but drops off (to 60-31% in favor) for the nation's highest income households -- perhaps because these households now enjoy the greatest leverage from existing preferences.

-- More than 7 Republicans in 10 (71%) favor the plan, which isn't surprising. Yet a strong majority of Democrats (61%) do, too. Independents favor the plan by better than 2 to 1 (62-30%).

Observation:

The Treasury Department tax simplification plan -- and by extension its sister proposals in the Congress -- clearly enjoys considerably broader public support than many in Washington suspect. How the measures will fare as they work their way through the legislative process very much remains to be seen. But the American people are going to be disappointed if their leaders don't seize this opportunity to undertake major tax reform.

Q.13

Table 10

PERCEIVED FAIRNESS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSAL

Q.: All things considered, do you think this plan will be more fair, less fair, or about as fair as taxes are now under the current system?

		Education			Sex		Income						Party Affiliation		
	Total	High School Graduate or Less	Some College	College Graduate or More	Men	Women	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over	Republican	Democrat	Independent
Base	1253	632	299	322	609	644	127	211	297	261	182	123	424	447	329
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Will be more fair	30	26	39	37	37	23	15	24	30	37	43	36	37	24	32
Will be less fair	18	16	19	21	16	19	16	17	19	16	16	21	13	22	17
Will be about as fair	45	49	39	37	42	48	53	53	44	43	37	38	44	46	45
Not sure	7	9	4	4	5	10	17	6	6	4	4	5	6	8	6

Q.12a

Table 11

FINAL POSITION ON THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSAL

Q.: The tax simplification plan that the Reagan Administration is working on calls for elimination or reduction of each of the tax breaks I've just asked you about, as well as lower rates, on average, for individuals and a higher personal exemption. All things considered, do you favor or oppose this plan for a simplified federal income tax?

		Region				Income						Party Affiliation		
	Total	East	Mid-west	South	West	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over	Republican	Democrat	Independent
Base	1253	314	312	387	240	127	211	297	261	182	123	424	447	329
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Favor	61	54	64	61	66	50	60	60	64	70	60	71	61	62
Oppose	29	36	28	28	24	34	27	31	30	24	31	22	36	30
Not sure	10	10	8	11	11	16	13	9	6	5	9	7	12	8

Simplify Taxes or Reduce the Deficit?

Congress now seems to be moving concurrently on these agendas, and in view of public support for both objectives, it's a good thing. Yet if push comes to shove, Americans would rather see Congress tackle the deficit monster first: by 63-26% Americans say reducing the deficit is more important (Table 12).

Observation:

In this regard, it's worth noting what a little repackaging can do. Limiting deductions of interest on personal debt is favored by 48-40% as a measure to reduce the deficit, but is considered acceptable by 65-27% as part of a tax simplification plan (Table 13). Eliminating deductions of state and local income taxes and sales taxes is opposed by 51-30% as part of a deficit reduction plan, but found acceptable by 58-34% as part of a tax simplification initiative. Similar relationships hold for each of ten measures tested.

It's possible that Americans associate deficit reduction with belt-tightening and sacrifice but welcome the promise of tax simplification. If so, it won't be surprising to see the distinction between the two objectives blur considerably in the months ahead.

Q.14

Table 12

THE PERCEIVED RELATIVE IMPORTANCE OF REDUCING THE DEFICIT OR SIMPLIFYING THE FEDERAL INCOME TAX

Q.: In general, which do you think is more important -- reducing the federal budget deficit or simplifying the federal income tax?

		Education			Income					
	Total	High School Graduate or Less	Some College	College Graduate or More	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over
Base	1253	632	299	322	127	211	297	261	182	123
	%	%	%	%	%	%	%	%	%	%
Reducing the budget deficit	63	58	69	75	57	57	66	62	71	73
Simplifying taxes	26	28	23	19	26	28	24	27	23	22
Both (vol.)	6	6	5	3	3	7	5	8	3	4
Neither (vol.)	*	*	*	*	-	1	*	-	-	-
Not sure	6	7	2	2	13	6	5	3	3	1

*Less than 0.5%.

Q.4,11b

Table 13

THE PUBLIC'S POSITION ON VARIOUS TAX PROPOSALS PRESENTED AS DEFICIT REDUCTION MEASURES VERSUS PRESENTING THE PROPOSALS AS PART OF A TAX SIMPLIFICATION PLAN

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

Q.: And how acceptable to you would this overall plan to simplify the federal income tax be if it includes this provision -- very acceptable, somewhat acceptable, somewhat unacceptable, or very unacceptable?

Base: 1253	As a Measure To Reduce the Deficit %	As Part of a Plan To Simplify Taxes %
Limits deductions of charitable contributions to those exceeding a certain percentage of income		
Favor/acceptable	50	66
Oppose/unacceptable	40	27
Not sure	10	7
Eliminates deductions of interest paid on second or vacation homes from federal taxable income		
Favor/acceptable	49	65
Oppose/unacceptable	40	26
Not sure	11	8
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year		
Favor/acceptable	48	65
Oppose/unacceptable	40	27
Not sure	12	7
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate		
Favor/acceptable	41	64
Oppose/unacceptable	38	25
Not sure	20	10

(Continued)

Q.4,11b

Table 13 (Continued)

THE PUBLIC'S POSITION ON VARIOUS TAX PROPOSALS PRESENTED AS DEFICIT REDUCTION MEASURES VERSUS PRESENTING THE PROPOSALS AS PART OF A TAX SIMPLIFICATION PLAN

Base: 1253	As a Measure To Reduce the Deficit %	As Part of a Plan To Simplify Taxes %
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment		
Favor/acceptable	45	63
Oppose/unacceptable	42	30
Not sure	13	8
Eliminates the investment tax credit businesses now get for things like new plants and equipment		
Favor/acceptable	37	63
Oppose/unacceptable	47	30
Not sure	16	7
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income		
Favor/acceptable	30	58
Oppose/unacceptable	51	34
Not sure	18	9
Eliminates deductions of local property taxes from federal taxable income		
Favor/acceptable	31	55
Oppose/unacceptable	56	36
Not sure	13	8
Taxes employees for group life insurance premiums that are paid by employers		
Favor/acceptable	30	53
Oppose/unacceptable	62	40
Not sure	9	7
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount		
Favor/acceptable	28	52
Oppose/unacceptable	61	40
Not sure	11	8

CHAPTER 4: SUPPLEMENTAL REPORT: AMERICA'S FULL-TIME EMPLOYEES

Health Insurance

Practically all full-time employees in the U.S. have some form of health insurance: only 5% report that they have none. Fifty-seven percent have insurance provided by their employer, 18% pay for their health insurance themselves, and an identical percentage both pay for some health insurance themselves and have some provided by an employer (Table 14). If the tax laws were changed to tax employees on health insurance premiums paid for them by their employers, most (59%) would simply pay the higher taxes, while 28% would accept a combination of lower coverage and higher taxes. Only 7% of employees would reduce their health insurance coverage (Table 15).

Life Insurance

Equal proportions of employees (32%) have life insurance provided by their employer and life insurance they pay for themselves (Table 14). One in four have both forms of life insurance, while 11% have none.

Retirement or Pension Plans

Nearly two-thirds of employees (64%) have a retirement or pension plan provided by their employer, a proportion that rises with age and income up to the $50,000 level. The highest income employees are less likely to have a retirement or pension plan provided by their employer (Table 14).

Twenty-nine percent of all households have an Individual Retirement Account (IRA), including 39% of the households of full-time employees. Nineteen percent of all households have already contributed to their IRA for 1984, and an additional 5% plan to do so before April 15 (Table 16).

In thinking about retirement income, employees look first to their employers: 66% say they think an employer-provided pension should be a major part of their retirement income while only 52% assign this responsibility to Social Security (Table 17). Slightly more (55%) look to their own contributions to their retirement income to play a major part. When the chips are down, employees have confidence only in themselves; only 25% expect Social Security actually will be a major part of their retirement income, and only 41% expect an employer-provided pension to be a major part. Fully 50% expect their own contributions will be a major part of their income.

Q.F3d,F3e,F3f

Table 14

PROFILE OF EMPLOYEE BENEFITS

Base: Full-time employees

Q.: Do you have a retirement or pension plan provided by your employer, or not?

Q.: Do you have life insurance provided by your employer, life insurance you pay for yourself, or do you have no life insurance?

Q.: Do you have health insurance provided by your employer, health insurance you pay for yourself, or do you have no health insurance?

	All Full-Time Employees	Age			Income				
		18-29 Years	30-49 Years	50-64 Years	$15,000 or Less	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 and Over
Base	667	193	343	123	109	154	165	134	88
	%	%	%	%	%	%	%	%	%
Retirement or pension plan provided by your employer									
Have	64	53	70	71	47	66	73	73	59
Do not have	35	47	30	29	52	34	26	26	41
Life insurance									
Provided by employer	32	40	27	34	21	34	34	39	30
Paid for by self	32	26	36	30	36	34	28	27	37
Both	25	16	28	31	16	22	30	29	31
Have none	11	18	8	5	27	10	7	5	1
Health insurance									
Provided by employer	57	65	55	53	45	60	55	74	54
Paid for by self	18	17	17	20	28	20	19	10	12
Both	18	11	20	24	12	17	22	11	28
Have none	5	7	6	3	13	2	5	3	5

Q.F3g

Table 15

HOW EMPLOYEES WOULD REACT TO A TAX ON HEALTH INSURANCE PREMIUMS PAID FOR THEM BY THEIR EMPLOYERS

Base: Full-time employees with employer-provided health insurance (38% of all adults)

Q.: If the tax laws <u>are</u> changed so that you have to pay income tax on health insurance premiums above a certain amount that are paid for you by your employer, what would you do -- would you reduce your health insurance coverage to keep your taxes from going up, or would you pay higher taxes to keep the same health insurance coverage, or would you accept a combination of slightly higher taxes and slightly lower health insurance coverage?

		Age			Income	
	Total	18-29 Years	30-49 Years	50-64 Years	$25,000 or Less	$25,001 or More
Base	518	147	274	93	187	317
	%	%	%	%	%	%
Would reduce coverage	7	10	6	4	7	6
Would pay higher taxes	59	52	63	60	51	66
Would accept combination	28	34	24	28	36	22
Not sure	6	4	7	8	6	5

Q.F4a,F4b,F4c

Table 16

PROFILE OF IRA OWNERSHIP AND CONTRIBUTIONS

Q.: Do you or does any member of your household have an Individual Retirement Account, also known as an IRA, or not?

Q.: Has a contribution been made to this IRA for 1984, or not?

Q.: Do you or does a member of your household plan to make a contribution to this IRA before April 15, or not?

		Income					
	Total	$7,500 or Less	$7,501- $15,000	$15,001- $25,000	$25,001- $35,000	$35,001- $50,000	$50,001 or Over
Base	1253	127	211	297	261	182	123
	%	%	%	%	%	%	%
Has IRA	29	4	11	24	44	48	73
Has contributed for 1984	19	2	6	15	28	33	52
Plans to contribute for 1984	5	1	1	3	6	10	13

Q.F3b,F3c

Table 17

EMPLOYEES' ATTITUDES TOWARD RETIREMENT INCOME

Base: Full-time employees

Q.: Thinking about your retirement, do you think (READ EACH ITEM) should be a major part of your retirement income, a minor part, or no part at all of your retirement income?

Q.: And what role do you think (READ EACH ITEM) will actually play -- do you think it will be a major part of your retirement income, a minor part, or no part at all of your retirement income?

Base: 667	Major Part		Minor Part		No Part at All	
	Should Be %	Will Be %	Should Be %	Will Be %	Should Be %	Will Be %
A pension provided by your employer						
All employees	66	41	23	39	8	17
Age						
18-29 years	64	33	28	45	7	21
30-49 years	67	44	23	38	9	17
50-64 years	68	48	16	32	7	14
Income						
$15,000 or less	69	40	20	30	9	28
$15,001-$25,000	73	44	18	39	7	16
$25,001-$35,000	64	39	25	48	6	9
$35,001-$50,000	65	43	30	43	4	12
$50,001 or more	55	43	25	26	14	28
Has group retirement plan	77	52	20	42	2	4
Has IRA	64	41	25	39	7	18
Social Security						
All employees	52	25	37	49	9	24
Age						
18-29 years	53	24	36	49	10	27
30-49 years	49	20	38	49	11	30
50-64 years	58	39	39	49	3	8

(Continued)

Q.F3b,F3c

Table 17 (Continued)

EMPLOYEES' ATTITUDES TOWARD RETIREMENT INCOME

Base: 667	Major Part		Minor Part		No Part at All	
	Should Be %	Will Be %	Should Be %	Will Be %	Should Be %	Will Be %
Income						
$15,000 or less	74	50	20	34	5	14
$15,001-$25,000	60	34	36	49	4	17
$25,001-$35,000	46	12	41	58	11	28
$35,001-$50,000	42	14	44	48	10	34
$50,001 or more	29	11	48	51	20	38
Has group retirement plan	51	22	39	51	8	25
Has IRA	41	14	47	54	12	30
Arrangements you've paid for yourself, such as an Individual Retirement Account, a 401(k) account, or a Keogh account						
All employees	55	50	29	34	9	11
Age						
18-29 years	60	55	27	31	6	9
30-49 years	56	54	32	32	9	11
50-64 years	48	34	26	43	17	17
Income						
$15,000 or less	42	43	29	28	18	19
$15,001-$25,000	58	47	25	38	10	13
$25,001-$35,000	61	56	31	33	5	7
$35,001-$50,000	53	53	31	32	10	10
$50,001 or more	66	55	30	36	3	9
Has group retirement plan	55	51	32	34	8	11
Has IRA	65	61	29	33	4	4

APPENDIX A: RESEARCH METHOD

The survey conducted in 1985 for Sentry Insurance was carried out by means of telephone interviews with 1,253 people 18 years of age or over. Quotas proportionate to Bureau of the Census data were set so that 48% of the respondents were male, 52% female. The sample was statistically constructed by means of a stratified unclustered systematic random selection that allows projections to be made to the entire adult population in the continental United States.

The sample was developed in a multistage process. First, a listing was developed of the latest estimates of the adult population of every state within each region in rank order. Then, a running cumulative total of gross sums was produced. A skip factor was calculated and a random number chosen. Beginning with that random number, sample points were assigned according to where the numbers fell on the running cumulative total of the adult population within the structure. This same procedure was applied to each state within each region to form Primary Sampling Units (PSU's).

At the next stage of selection, one telephone number for each PSU was randomly selected from the regularly updated Harris library of telephone directories. The selected numbers were then altered by dropping the last two digits and replacing them with randomly selected two-digit numbers. These numbers were appended until an interview was complete in each PSU.

The following profile of the sample shows the number of individuals in each subgroup and the weighted proportion of the total sample each group represents. Weighting was applied to education, age, sex, and race figures in order to bring them into line with the actual proportions of the population.

Table 18

PROFILE OF THE SAMPLE

	Number in Sample #	Unweighted Percentage %	Weighted Percentage %
Region			
East	314	25	25
Midwest	312	25	25
South	387	31	33
West	240	19	17
Size of Place			
Central city	382	30	29
Balance SMSA	572	46	45
Non SMSA	299	24	26
Age			
18-29 years	352	28	29
30-49 years	485	39	36
50-64 years	238	19	19
65 and over	176	14	16
Education			
High school graduate or less	632	50	66
Some college	299	24	17
College graduate or more	322	26	17
Sex			
Men	609	49	48
Women	644	51	52
Race			
White	1075	86	84
Black	113	9	11
Hispanic	65	5	6
Income			
$7,500 or less	127	10	13
$7,501-$15,000	211	17	19
$15,001-$25,000	297	24	24
$25,001-$35,000	261	21	20
$35,001-$50,000	182	15	12
$50,001 or more	123	10	8

The results achieved from surveys are subject to sampling error. Sampling error is defined as the difference between the results obtained from the sample and those that would have been obtained had the entire relevant population been surveyed. The size of sampling error varies both with the size of the sample and with the percentage giving a particular answer. The following table sets forth the range of error in samples of different sizes at different percentages of response:

Table 19

RECOMMENDED ALLOWANCE FOR SAMPLING
ERROR OF PROPORTIONS
(PLUS OR MINUS)

Sampling Tolerances (at 95% Confidence Level)
To Use in Evaluating Any Individual Percentage Result

Approximate Sample Size of Any Group Asked Question on Which Survey Result Is Based	Approximate Magnitude of Results				
	Survey Percentage Result at 10% or 90%	Survey Percentage Result at 20% or 80%	Survey Percentage Result at 30% or 70%	Survey Percentage Result at 40% or 60%	Survey Percentage Result at 50%
1,000	2	2	3	3	3
500	3	4	4	4	4
300	3	5	5	6	6
200	4	6	6	7	7